FDIC Consumer News
The Bank Customer's Publication
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# Truth In Lending Act Protects Against Deceptive Advertising

A main purpose of the Truth in Lend- ing Act (TILA) is to ensure complete disclosure of consumer credit terms so customers can determine the true cost of credit and make informed choices among competing lenders.

Prior to the enactment of TILA, some advertisers disclosed only the most attractive credit terms and omitted other important conditions. For example, an advertisement that reads, "1978 Chrysler, no money down, $50 per month," may or may not be a bargain, depending on such missing information as the total price and the number of payments. The advertisement also fails to disclose an annual percentage rate or even whether the transaction is a credit sale or a lease. TILA requires that such information be disclosed.

Any creditor, lessor, association, manufacturer or even any government agency (such as the Federal Housing Administration) that advertises "open end credit" must comply with TILA.

Open end credit permits the customer to make purchases or obtain loans on a continuing basis. The customer has the privilege of paying the balance in full or in installments, and a finance charge is imposed periodically on the outstanding unpaid balance. Credit cards are an example of open end credit. If an advertisement promoting open end credit contains any of the following terms, it must include certain disclosures:

(1) TILA requires an explanation of any "free ride" period, such as in: "Up to 30 days of free credit if you pay in full each month." The free ride period is the time within which any credit extended may be paid in full without incurring a finance charge.

(2) "A small monthly service charge on the remaining balance each month." TILA requires that the creditor dis- close the method of determining the balance on which a finance charge may be imposed.

(3) Terms such as minimum finance charge, periodic rate and billing costs must be explained. Creditors must disclose the method used to determine the amount of the fi- nance charge, including any min- imum charge, fixed charge, check service charge, transaction charge, activity charge or similar charge which is imposed.

(4) The annual percentage rate (APR) must be stated clearly. Where one or more periodic rates are used compute the finance charge. each corresponding APR must be dis- closed, as well as the range of bal- ances to which each rate applies.

When applying for open end credit, consumers should be aware that all dis- closures must be specific. Consumers should make sure they understand all credit terms and should ask for explana- tions of any they don't understand. For more information about the law's provi- sions, contact the nearest FDIC Re- gional Office.

Congress has passed a new TILA, which will become effective on October 1, 1982. The new statute contains precise language clarifying what types of creditors must make disclosures.

*Josie Downey*

# ASCs Offer Tax-Free Interest

Last October, investors were given a unique opportunity to earn up to $1,000 tax-free interest ($2,000 for returns filed jointly) by purchasing a new time de- posit known as an All Savers Certificate (ASC).

Depository institutions began offering the new time deposit on October 1, 1981 and will continue until December 31, 1982. This certificate has a maturity of exactly one year and pays an annual yield equal to 70 percent of the rate determined at the most recent auction of 52-week U.S. Treasury bills (T-bills). T- bills are auctioned every fourth Thurs- day and the results of the auction are announced by the Treasury Department late that day. The average investment yield determined by the auction applies to all ASCs issued beginning the follow- ing week, usually on Monday, and con- tinues to apply for the next four weeks.

When an individual buys an ASC, the rate remains constant for the duration of the certificate; it does not fluctuate with the monthly auction rates on the T-bills. If a consumer withdraws funds from an ASC account before the certifi- cate matures, a penalty equal to three months interest at the same interest rate being paid on the ASC is applied to the amount withdrawn. Also, a depositor who withdraws funds prior to the certif- icate's maturity forfeits the tax-free bene- fit and may not exclude any interest

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## Small Investors Can Participate In Some Repurchase Agreements

Financial institutions have found a way to attract new money and offer consumers market rates of interest on relatively small amounts of money. To compete with money market funds, some banks and savings and loan associations are selling repurchase agreements or "repos."

Not long ago, repos were primarily sold to large institutions for $100,000 or more. However, banks and federal savings and loans are now issuing retail repos to the banking public for less than $100,000.

A repo is a financial agreement between a financial institution and a conSumer. The bank sells to the customer, and at the same time agrees to repurchase within 89 days, an interest in a U.S. Government or government agency security. In return, the customer is paid a market rate of interest by the bank for use of the money. For example, the All Money Bank sells Mr. Smith an interest in a bank-owned U.S. Treasury bill for $5,000 plus interest at 10 percent for the 89 days the bank has use of Mr. Smith's money. At the end of 89 days, Mr. Smith receives $5,000 plus the interest which has accrued for 89 days.

Retail repos must have a maturity of less than 90 days and may not be automatically renewed or extended. There may be, but need not be, a fee or penalty for the early redemption of the repo. A fee and/or penalty may be imposed at the discretion of the bank. Since retail repos are not deposits, interest rate ceilings do not apply and the yields have generally been higher than those permitted on passbook accounts or certificates of deposit of similar amount or maturity.

Consumers should be aware that repos are not deposits and therefore not insured by the FDIC or the FSLIC. Repos are not guaranteed by the U.S. Government or any of its agencies.

FDIC recommends that consumers read all financial agreements carefully before signing them.

*Louise N. Kotoshirodo*
*Consumer Affairs Specialist*

## ASCs Offer Tax-Free Interest

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earned from gross income for tax purposes.

If a depositor withdraws interest periodically from an ASC, a specific interest formula must be used by the issuer to ensure that the interest payments do not exceed the permissible limit. An annual yield greater than that permitted would disqualify the ASC from tax-exempt status. Also, while other time deposits may be used as collateral for a loan, the use of an ASC as collateral would result in loss of its tax-exempt status.

In sum, the tax-free benefit is dependent on three conditions:

(1) the certificate must be issued only from October 1, 1981 through December 31, 1982:

(2) the certificate must have a matur- ity of exactly one year; and (3) the deposit must have an annual investment yield equal to 70 percent of the applicable average annual investment yield on 52-week Treasury bills.

Conversions of existing certificates to ASCs are permitted with the consent of the issuing institution. Two conditions must be met: the remaining time of the existing certificate of deposit must be one year or less and the interest rate on the ASC must be equal to or lower than that on the present certificate of deposit. Partial conversions of existing time deposits are also permitted. For example, if a depositor owns a $20,000 six-month Money Market Certificate (MMC) and desires to convert, without penalty, $15,000 of that amount into an ASC, he or she may do so providing the interest rate on the ASC is no higher than the rate payable on the existing MMC. The one-year maturity on the ASC will al- ways be longer than the remaining maturity on the MMC. Interest on the remaining $5,000 could not be paid at the MMC rate, however, because that amount is lower than the $10,000 minimum required for MMCs.

The rate payable on the remaining $5,000 would be the maximum rate allowed on deposits with maturities of 90 days or more but less than one year, even if fewer than 90 days remain to maturity on the MMC. This rate would be paid from the time of conversion and is 5.75 percent and 6 percent at commer- cial banks and mutual savings banks, respectively. In the alternative, the de- positor could transfer the $5,000 into a time deposit of a longer maturity than that remaining on the MMC (for exam- ple, a 2%-year Small Savers Certificate). If the depositor chooses to withdraw the remaining $5,000 from the bank, the depositor would be penalized three months' interest based on that amount at the original MMC rate.

*Elaine S. Pool*
*Consumer Affairs Assistant*

## Los Inversionistas Pequeños Pueden Participar En Algunos Acuerdos De Recompra

**Las instituciones financieras han descubierto una manera de atraer fondos nuevos y al mismo tiempo ofrecer a los consumidores tasas de interés del mercado por cantidades de dinero relativamente pequeñas. Algunos bancos y asociaciones de ahorros y préstamos están vendiendo acuerdos de recompra (conocidos en inglés como "repurchase agreements" o "repos") para competir con los fondos del mercado monetario.**

**En el pasado, los acuerdos de recom- pra se vendían primordialmente a instituciones grandes por la cantidad mínima de S 100,000 o cantidad may- or. Sin embargo, en la actualidad los bancos y las instituciones fede- rales de ahorros y préstamos están ofreciendo al público bancario acuer- dos de recompra al detalle por menos de S 100,000.**

**Un acuerdo de recompra es un Convenio financiero entre la institu- ción financiera y el consumidor. El banco le vende al cliente y al mismo tiempo consiente en recomprar parti- cipación de valores del Gobierno de los Estados Unidos o agencia guber- namental, dentro de un margen de 89 días. El banco le paga al consumidor la tasa de interés del mercado a cambio de utilizar su dinero. Por ejemplo, el Banco X le vende al Sr. López participación en un Bono del Tesoro de los Estados Unidos, pagaré o títulos, por la cantidad de $5,000 más interés al 10 por ciento por los 89 días que el banco ha utilizado el dinero del Sr. López. Al cabo de los 89 días, el Sr. López recibe $5,000 más el interés devengado por el período de 89 días.**

**Los acuerdos de recompra tienen un vencimiento de un plazo menor de 90 días y no pueden ser renovados o extendidos automáticamente. Un cargo o multa puede resultar a causa de una amortización prematura del acuer- do de recompra. El cargo y/o la multa pueden ser impuestos a la discreción del banco. Puesto que los acuerdos de recompra no son depósitos, no están sujetos a los límites máximos de las tasas de interés, y los rendi- mientos usualmente son mayores que aquellos permitidos en los ahorros bancarios o los certificados de de- pósitos por una cantidad o venci- miento similar. Los consumidores deben tener pre- sente que los acuerdos de recompra no son depósitos y por lo tanto no están asegurados por el FDIC o el FSLIC. Estos convenios no están garantizados por el Gobierno de los Estados Unidos o sus agencias.**

**El FDIC recomienda que los consu- midores lean antes de firmar todos los acuerdos financieros cuidadosamente. Si desea información adicional acerca de los acuerdos de recompra, llame a la Oficina Regional del FDIC más carcana.**

**FDIC CONSUMER NEWS**

**Si usted desea recibir este noticiero favor de enviar su nombre y dirección postal a la siguiente dirección:**
**Josie Downey, Editor**
**FDC Consumer News**
**55O 17th Street, N.W.**
**Washington, D.C. 20429**

IF YOU WISH TO BE PLACED ON THE FDIC CONSUMER NEWSLETTER MAILINGLIST, PLEASE FILL OUT THE FORM BELOW AND MAIL TO: Josie Downey, Editor, Federal Deposit Insurance Corporation, 550 17th St., N.W., Washington, D.C. 20429

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**The next issue of the FDIC Consumer Newsletter will be in April 1982.**

## Questions From Bank Customers

**FDIC CONSUMER HOTLINE**

**– 800-424–5488–**

**Q.** **Many institutions are offering interest on checking, the so-called NOW accounts. What is the highest rate of interest a bank can pay on a NOW account?**

**A.** **Under the rules of the Depository Institutions Deregulation Committee, the maximum is 5% percent.**

**Q.** **Q. Are Individual Retirement Accounts (IRAs) and Keogh Accounts insured by the FDIC?**

**A.** **Such accounts in FDIC-insured banks are insured up to $100,000, separately from a depositor's other accounts.**

**Q.** **Can a bank legally stop payment on a cashier's check?**

**A.** **A bank can stop payment on a check drawn on itself, but does so only in unusual cases. For example, if a customer loses the check, the bank may stop payment on it.**

**Q.** **Can a bank use citizenship as a reason for denying credit?**

**A.** **Yes. Some banks deny credit to non-U.S. citizens because of their transient status.**

**Q.** **Can a bank refuse to cash a social security or other type of check if the payee does not have an account with the bank?**

**A.** **Yes. Some banks refuse to cash checks unless the payee has an account with them.**

**Q.** **Can a bank hold a disability or retirement check to cover overdrafts when the check is automatically deposited to an account?**

**A.** **Depending on State law, deposits made to an account which is overdrawn may be used to offset the overdraft.**

**Q.** **Can a customer substitute a certificate of deposit for other collateral without being charged a higher interest rate on a loan?**

**A.** **A bank cannot secure a loan with a certificate of deposit it has issued unless the interest rate charged on the loan is one percent higher than the interest rate on the certificate of deposit. However, a bank can accept as security a certificate of deposit drawn on a different bank without charging a higher interest rate.**

**GPO 800-527**